

LONDON • CANADA

John Labatt Limited

1958
ANNUEL
RAPPORT
130^{ème}

Labatt's

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Labatt's

130TH
ANNUAL
REPORT
1958

John Labatt Limited

LONDON • CANADA

ANNUAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30
1958

Annual and Special General Meeting
of Shareholders

DECEMBER 5, 1958

150 Simcoe Street, London, Ontario
at 12:00 o'clock noon

Directors

V. P. CRONYN.....	London, Ontario
R. G. IVEY, Q.C.....	London, Ontario
HUGH A. MACKENZIE.....	Toronto, Ontario
A. S. GRAYDON.....	London, Ontario
LOUIS P. GELINAS.....	Montreal, Quebec
JOHN P. LABATT.....	Winnipeg, Manitoba
HON. CHARLES P. McTAGUE, Q.C.....	Toronto, Ontario
H. J. O'CONNELL.....	Montreal, Quebec
J. H. MOORE.....	London, Ontario
D. W. PRITCHARD.....	London, England
D. B. WELDON.....	London, Ontario

Officers

J. H. MOORE.....	President
J. P. LABATT.....	Vice-President
J. B. CRONYN.....	Vice-President, Production
J. D. VARNELL.....	Vice-President, Marketing
A. S. GRAYDON.....	Secretary
J. W. CARSON.....	Treasurer

Divisional Managers

N. E. HARDY.....	Ontario Division
W. L. SHORTREED.....	Quebec Division
J. P. LABATT.....	Manitoba Division
R. F. LEWARNE.....	British Columbia Division

Solicitors

Ivey, Livermore & Dowler, London

Auditors

Clarkson, Gordon & Co., London

Transfer Agents

The Canada Trust Company, Toronto and Winnipeg, The Royal Trust Company, Montreal, Vancouver and Halifax, and the Bank of Montreal Trust Company, New York, U.S.A.

Registrars

The Royal Trust Company, Toronto, Winnipeg and Halifax, The Bankers' Trust Company, Montreal, The Canada Trust Company, Vancouver, and The Bank of Montreal Trust Company, New York, U.S.A.

The Directors' Report

TO THE SHAREHOLDERS:

The Board of Directors submits herewith the 130th Annual Report of John Labatt Limited and its subsidiaries for the year ended September 30, 1958, together with the consolidated balance sheet, financial statements and auditors' report.

Your Company's Progress

This year can be recorded as one of the most momentous in Labatt's long history. Your Company purchased Lucky Lager Breweries Ltd., one of the largest brewing companies in British Columbia, and so became a truly national enterprise. This acquisition also gives your Company a substantial interest in Lucky Lager Brewing Company in California, the largest brewing company on the west coast.

The provinces of Quebec, Ontario, Manitoba and British Columbia, in which there now are Company breweries, consume 85% of all beer sold in Canada.

It must give all shareholders a great deal of satisfaction to review the tremendous progress which has been made in recent years, and to realize how rapidly these planned objectives have been achieved.

Labatt's, emerging from the restrictive years of World War II as a one-brewery enterprise, immediately embarked on a program of modernization and expansion. For the parent brewery in London this meant a \$12 million modernization and building program lasting almost 10 years.

In 1946 the Copland Brewing Company Limited in Toronto was purchased, in 1953 Shea's Winnipeg Brewery Limited was acquired, and in 1956 construction of the Montreal brewery was completed.

In May your Company made an offer to purchase common stock of Lucky Lager. At the end of this fiscal year 93.5% has been acquired and the breweries at New Westminster and Victoria have been completely integrated into Labatt's methods of operation and control.

Two of the Company's national brands, "50" Ale and Pilsener Lager Beer, are being produced in the New Westminster plant and were introduced to the British Columbia market at local prices in August.

The purchase of Lucky Lager and the introduction of Labatt brands to the British Columbia market were accomplished in a

remarkably short time. This was due in no small part to the excellent co-operation received from the management and employees of Lucky Lager and from the people of British Columbia.

John Labatt Limited is pleased and proud to be a corporate citizen of this progressive province, now celebrating its centennial.

The products under Labatt and Lucky Lager brand names are enjoying increasing acceptance and it can now be reported that it is planned to increase Lucky Lager production capacity during 1959.

Shea's Winnipeg Brewery and Labatt's were formally merged on October 1 to form Labatt's Manitoba Brewery Limited. Planning already is under way to expand production facilities for this province and the Company has agreed to purchase from the City of Winnipeg a 25-acre site for eventual construction of a new brewery.

In September your Company formed a close association with Ind Coope Limited, the largest brewing concern in the United Kingdom. This agreement provides for the exchange of information on technical, production, administrative, and marketing matters. Labatt's president J. H. Moore has been appointed a director of the British company and Derek W. Pritchard, a managing-director of Ind Coope has joined the Labatt board of directors. There is no financial transaction to this agreement and each Company will continue to sell only its own products.

This mutual assistance pact will assist Labatt's in accelerating and expanding research and development programs, and in establishing export markets of mutual interest.

Labatt's Pilsener Lager Beer won a "Prix d'Excellence" in the World Beer Competition held in Belgium, the highest award given any ale or beer entered by breweries in North America. Velvet Cream Stout, the newest brand introduced in Ontario last May, and Select, the popular lager beer brewed by the Manitoba division, each were awarded a "Premier Prix."

The Marketing Picture

The Canadian brewing industry enjoyed increased sales during 1958 in two of the four provinces in which your Company has facilities. Record levels were attained in British Columbia and Manitoba. Industry sales in Quebec were slightly below the previous year, attributable mainly to poor summer weather in many areas.

In Ontario, retail stores of the Brewers' Warehousing Company were closed from the week of August 4 until September 26 as a result of a strike of that company's employees. The industry lost sales during most of two high-volume months so that increases recorded for the first 10 months of the fiscal year were turned into a 10.5% decrease in sales volume.

Your Company was able to increase its share of the British Columbia and Quebec markets, with a small improvement being recorded in Manitoba during the last half of the year.

In Ontario your Company maintained its position in this major market with sales being reduced the same percentage as the industry as a result of the strike.

Sales in export markets continue to show steady increases.

Financial Highlights

Comparison of Financial Position

	1958	1957	1956
Shareholders' Equity	\$23,459,832	\$22,741,003	\$21,641,294
Shareholders' Equity per common share	18.69	18.12	17.24
Debentures, notes payable and mortgages ..	9,225,000	7,650,500	8,081,500
Fixed Assets	42,145,717	30,764,892	29,912,646
Accumulated Depreciation	19,220,267	13,199,937	11,721,881
Working Capital	5,960,219	9,446,632	8,238,002

Comparison of Earnings Per Share

	1958	1957	1956
Net Profit	\$1.77	\$2.08	\$1.89
Minority Interest	.12	—	—
Net Profit before Minority Interest	1.89	2.08	1.89
Depreciation	1.37	1.32	1.38
Cash Income	3.26	3.40	3.27
Income Tax	1.44	1.48	1.38
Cash Income before Income Tax	4.70	4.88	4.65
Number of shares outstanding in each year —	1,254,995		

The reduction in working capital is due to the purchase of common shares of Lucky Lager Breweries Ltd. This purchase was financed from Company funds together with \$2 million borrowed on relatively short-term notes.

With the acquisition of Lucky Lager Breweries Ltd. the basis for consolidation at September 30, 1958 has been changed from that used in prior years. In 1958 all subsidiaries are consolidated and the minority shareholders' interest in the net assets is set out in the consolidated balance sheet as a liability. Prior to 1958 only wholly-owned subsidiaries were consolidated and earnings of partly-owned subsidiaries were included to the extent of dividends received.

During the past number of years the Company has consistently followed the policy of recording depreciation in the financial statements at approximately the maximum amount allowed under the provisions of the Income Tax Act.

This year your Directors felt it appropriate to change the Company's depreciation policy to conform with that of the industry. The effect of this change on the Company's earnings has been clearly set out in note 7 of the financial statements.

The Ontario industry shutdown as a result of the Brewers' Warehousing Company strike had a very adverse effect on Company profits. It is estimated that sales lost during this period reduced profits by 67c per share.

Your Board of Directors still views with concern the high taxes levied on the industry.

Personnel

W. H. R. Jarvis, President since June 1956 and a director for 18 years, died suddenly in Toronto on July 15, 1958. Mr. Jarvis gave valuable guidance and advice to the Company during its years of greatest expansion and progress, and his broad experience in international business is missed by the Board of Directors.

J. H. Moore, Executive Vice-President and Managing Director, was elected to the presidency in August. Mr. Moore joined the Company in April 1953 as Director of Finance and Treasurer.

John P. Labatt, a fourth generation member of the family which founded the Company, was appointed a Vice-President.

Douglas B. Weldon, a well-known London businessman, was appointed to the board of directors in August. The appointment of Derek W. Pritchard has been mentioned earlier. Mr. Weldon brings to the board extensive experience in the financial world.

Scholarships were awarded in September to three children of employees to assist them in obtaining higher educations. These scholarships were founded in October 1957 to commemorate 50 years of union labour within the Company, and the 1958 awards are the first to be made.

The addition of employees in British Columbia, to whom a most sincere welcome is extended, has resulted in the largest work force in the Company's history. There are 2,389 employees, whose continuing earnest and loyal service is appreciated by the Directors and recognized as one of the most vital factors in the Company's success.

The Directors regret the adverse effect of the Brewers' Warehousing Company strike on Labatt employees in Ontario. Labatt's

has long had an envied reputation for excellent personnel relations. This is due in no small part to the policy of continuous union-management consultation which was inaugurated in the London brewery many years ago and now is practised in all divisions.

As of September 30, 1958, the Company was owned by 6,079 Shareholders, and their continued confidence and support is acknowledged with gratitude.

Your Directors have approved the establishment of a share purchase plan as a means of rewarding officers and key personnel for outstanding contributions to the progress of the Company. A maximum of 50,000 shares has been set aside for this purpose.

The Outlook

The Canadian market is expected to continue the steady gains of recent years as populations increase and higher standards of living are attained. With its new national stature and resources, John Labatt Limited is in an excellent position to take advantage of every opportunity and continue its steady progress.

By order of the Board of Directors,



President.

November 14, 1958.

Auditors' Report

To the Shareholders of
John Labatt Limited.

We have examined the consolidated balance sheet of John Labatt Limited and its subsidiaries as at September 30, 1958 and the consolidated statement of profit and loss and earned surplus for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying consolidated balance sheet and consolidated statements of profit and loss and earned surplus are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the companies as at September 30, 1958 and the results of their operations for the year ended on that date, according to the best of our information and the explanations given to us and as shown by the books of the companies.

CLARKSON, GORDON & CO.
Chartered Accountants.

London, Canada.
November 5, 1958.

Consolidated Balance Sheet

JOHN LABATT LIMITED

AND ITS SUBSIDIARIES

(Incorporated under the Laws of Canada)

AS AT SEPTEMBER 30, 1958

ASSETS

CURRENT:

Cash	\$ 2,792,145
Marketable securities and accrued interest — — at approximate market value	53,391
Accounts receivable less allowance for doubtful accounts	3,198,673
Inventories — valued as set out in Note 3	6,495,285
Prepaid expenses	515,082
	<u>\$13,054,576</u>

INVESTMENTS AND OTHER ASSETS AT COST:

Investments in and advances to associated companies (Note 2)	\$ 3,546,114
Mortgages, loans and advances — less allowances for losses	2,021,438
	<u>\$ 5,567,552</u>

FIXED AT COST: (Note 2)

Land	\$ 2,014,557
Buildings	21,759,649
Machinery and equipment	16,077,649
Trucks and automobiles	2,029,852
Leasehold improvements and other deferred charges	264,010
	<u>\$42,145,717</u>
Less accumulated depreciation and amortization	19,220,267
	<u>\$22,925,450</u>
	<u>\$41,547,578</u>

LIABILITIES

CURRENT:

Bank Loan	\$ 2,293,538
Accounts payable and accrued charges	2,381,197
Dividend payable October 1, 1958	376,499
Taxes payable	1,618,123
Debenture principal due within one year	425,000
	<u>\$ 7,094,357</u>

DEBENTURES AND NOTES PAYABLE: (Note 4)

Debentures	\$ 6,800,000
Notes payable	2,000,000
	<u>\$ 8,800,000</u>

MINORITY INTEREST IN SUBSIDIARIES	<u>\$ 2,193,389</u>
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CAPITAL AND SURPLUS:

Capital —	
Authorized — 1,500,000 common shares without par value	
Issued — 1,254,995 common shares	\$ 5,798,048
Earned Surplus (Note 5)	17,661,784
	<u>\$23,459,832</u>

On behalf of the Board

J. H. MOORE, Director

V. P. CRONYN, Director

\$41,547,578

The attached "Notes to the consolidated financial statements" should be read with these statements.

JOHN LABATT LIMITED

AND ITS SUBSIDIARIES

Statement of Consolidated Profit and Loss

FOR THE YEAR ENDED SEPTEMBER 30, 1958

Consolidated profit before deducting the following charges	\$ 5,778,768
Deduct:	
Depreciation and amortization (Note 7)	\$ 1,724,622
Interest on debentures and notes payable	303,392
	<u>\$ 2,028,014</u>
	\$ 3,750,754
Add:	
Income from investments	303,150
Profit on sale of investments and fixed assets	137,722
	<u>\$ 4,191,626</u>
Taxes on income (Note 7)	1,813,000
Consolidated net profit before minority interest	\$ 2,378,626
Deduct minority interest	153,803
Consolidated net profit (Note 1)	<u>\$ 2,224,823</u>

Note: The following expenses incurred by the Company have been deducted in arriving at consolidated profits—

Directors' fees	\$ 8,250
Executive remuneration and legal fees	175,672

Statement of Consolidated Earned Surplus

FOR THE YEAR ENDED SEPTEMBER 30, 1958

Balance — October 1, 1957	\$16,942,955
Add:	
Consolidated net profit	2,224,823
	<u>\$19,167,778</u>
Deduct:	
Dividends paid or declared	1,505,994
Balance — September 30, 1958	<u>\$17,661,784</u>

JOHN LABATT LIMITED

AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

SEPTEMBER 30, 1958

Note 1 — Acquisition of shares of Lucky Lager Breweries Ltd.

During the past year John Labatt Limited acquired 93.5% of the outstanding common shares of Lucky Lager Breweries Ltd. pursuant to an offer made in May, 1958 and, accordingly, the assets and liabilities of that company are included in the attached consolidated balance sheet as at September 30, 1958. Similarly, the portion of the earnings of this subsidiary company for the four months ended September 30, 1958, which are attributable to the common shares held by John Labatt Limited are included with consolidated earnings shown on the attached statement of profit and loss.

Note 2 — Assets of Lucky Lager Breweries Ltd.

The investment in associated companies and fixed assets of Lucky Lager Breweries Ltd. are included at their effective cost to John Labatt Limited which is \$3,331,193 in excess of their book value in the accounts of the subsidiary company as follows:

Investment in associated companies	\$ 953,519
Fixed assets	2,377,674
	<u>\$3,331,193</u>

The effective cost to John Labatt Limited of the investment in associated companies represents the approximate market value of these investments at the date of acquisition of control of the subsidiary company. The effective cost of the fixed assets is substantially less than their appraised values.

Depreciation for the four months ended September 30, 1958 based on the effective cost of the fixed assets to John Labatt Limited has been included in the attached statement of profit and loss.

Note 3 — Inventories

Inventories at September 30, 1958 are valued as follows:

Beer and ale — at the lower of cost or market	\$ 3,504,385
Raw materials and supplies — at the lower of cost or market	961,161
Bottles at redemption price	731,989
Kegs — at cost less amounts written off	1,297,750
	<u>\$ 6,495,285</u>

Note 4 — Debentures and notes payable

Particulars of debentures and notes payable at September 30, 1958 are as follows:

Debentures	
Authorized less redeemed	(a) \$ 7,225,000
Outstanding:	
4% serial debentures series "A" to mature in equal annual instalments of \$425,000 each on March 1, 1959 to 1965 inclusive	\$ 2,975,000
4% sinking fund debentures series "A" to mature March 1, 1975 (sinking fund payments of \$425,000 per annum commencing 1966)	4,250,000
	<u>\$ 7,225,000</u>
Deduct principal due within one year:	
4% serial debentures series "A" — March 1, 1959	425,000
	<u>\$ 6,800,000</u>

- (a) Under the provisions of the trust deed entered into on February 15, 1955, additional debentures may be authorized from time to time in an unlimited amount provided certain conditions are complied with.

Notes payable

4¼% Note maturing March 29, 1960	\$ 1,000,000
5¼% Note maturing August 11, 1963	1,000,000
	<u>\$ 2,000,000</u>

Note 5 — Earned Surplus

The trust indenture relating to the debentures contains a provision whereby dividends may not be declared or paid which would reduce consolidated net current assets (as therein defined) below a certain level. At September 30, 1958 the consolidated net current assets (as so defined) were in excess of such requirements.

Note 6 — Long Term Lease

Under a lease entered into during the year ended September 30, 1955 in respect of the occupancy of premises sold by a subsidiary company, an annual rental of approximately \$287,000 is payable for the next six years and substantially reduced rentals are payable under renewal options covering additional periods totalling eight years.

Note 7 — Depreciation and taxes on income

During the year the company changed its basis of providing for depreciation of plant and equipment from the diminishing balance basis (which approximated the amounts allowed for income tax purposes) to the straight line basis at rates designed to amortize the cost of the assets over their expected useful life. The effect of this change has been to reduce the provision for depreciation and increase the profit for the year by \$251,000.

The company proposes to continue to claim for income tax purposes the maximum capital cost allowance permitted and, accordingly, \$118,000 of the increase in profit referred to above is attributable to the tax reduction arising from claiming capital cost allowance in excess of depreciation recorded in the accounts.

50

ALE

PILSENER

LAGER BEER

IPA

INDIA PALE ALE

Labatt's National Brands



LUCKY LAGER BREWERIES LIMITED

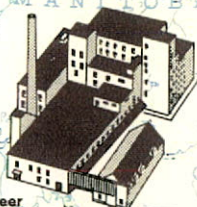
VANCOUVER

VICTORIA

Pilsener Lager Beer
"50" Ale
Lucky Lager
Silver Spring Beer
Silver Spring Quality Stout
Silver Spring "Ye Olde Ale"
Phoenix Centennial Beer
Rainier Beer



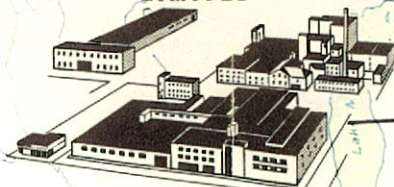
LABATT'S MANITOBA BREWERY LIMITED



WINNIPEG

Pilsener Lager Beer
"50" Ale
Select
Fine Old Stock Ale
Shea's Stout

JOHN LABATT LIMITED



JOHN LABATT LIMITED



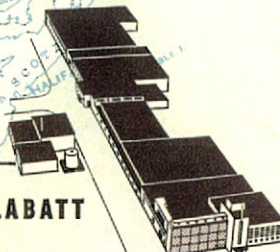
"50" Ale
Pilsener Lager Beer
India Pale Ale
Crystal Lager Beer
Extra Stock Ale
Velvet Cream Stout

LONDON

TORONTO

LA BRASSERIE LABATT LIMITÉE

"50" Ale
Pilsener Lager Beer
India Pale Ale



MONTREAL